

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 EURE-00 OMB-01 CIAE-00 DODE-00 PM-04
H-01 INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02
SS-15 USIA-06 EB-08 /067 W
-----281955Z 093383 /46

P R 281755Z JAN 77
FM AMEMBASSY ROME
TO SECSTATE WASHDC PRIORITY 2460
TREAS DEPT DC PRIORITY
INFO AMCONSUL FLORENCE
AMCONSUL MILAN
AMCONSUL NAPLES
USMISSION EC BRUSSELS

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NAPLES PASS POLAD STODDARD

E.O. 11652: N/A
TAGS: PINT, IT
SUBJECT: PM ANDREOTTI FACES DIFFICULTIES

1. SUMMARY. SINCE ITS INCEPTION, THE ANDREOTTI MINORITY GOVERNMENT HAS DRAWN ITS CHIEF STRENGTH FROM TWO FACTORS-- THE COMPLETE AND UNWAVERING SUPPORT OF ANDREOTTI'S OWN PARTY, THE DC, AND THE LACK OF A REAL ALTERNATIVE. SUDDENLY, BOTH OF THESE FOUNTS OF STRENGTH SEEM LESS SECURE THAN BEFORE, INFLUENTIAL EXPONENTS OF THE DC HAVE CRITICIZED ANDREOTTI'S ACQUIESCENCE IN OF THE LABOR-MANAGEMENT AGREEMENT ON LABOR COSTS AND PRODUCTIVITY. AT THE SAME TIME, IMPORTANT SOCIALIST LEADERS ARE ATTEMPTING TO BRING THAT PARTY BACK INTO A GOVERNMENTAL RELATIONSHIP WITH THE DC. ALTHOUGH THE LIKELIHOOD IS THAT PM ANDREOTTI WILL BE ABLE TO SURVIVE THROUGH ADROIT MANEUVERING, THERE IS NO DOUBT THAT THE COMING DAYS WILL TEST THE PM'S CONSUMMATE
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POLITICAL SKILL. END SUMMARY.

2. PM ANDREOTTI PROVED ON SEVERAL OCCASIONS DURING THE LAST FEW MONTH THAT HE COULD COUNT ON THE UNCONDITIONAL SUPPORT OF HIS OWN PARTY IN TIGHT SITUATIONS. EVEN ON THE CRUCIAL ISSUE OF LABOR COSTS AND PRODUCTIVITY, ANDREOTTI WAS ABLE TO DEFUSE THE

DEMAND OF SEVERAL OF THE ABSTAINING PARTIES FOR AN ECONOMIC "SUMMIT" BY AGREEING THAT TALKS ON ECONOMIC MATTERS WOULD TAKE PLACE IN THE PARLIAMENTARY CONTEXT (SEE ROME 0699). THIS HARMONY ENDED ON THE NIGHT OF JANUARY 27, WHEN A GROUP OF DC LEADERS, INCLUDING PARTY PRESIDENT MORO, PARTY SECRETARY ZACCAGNINI, VICE SECRETARY GALLONI, PARLIAMENTARY LEADERS PICCOLI AND BARTOLOMEI, AND ECONOMIC EXPERT FERRARI AGGRADI PRESENTED TO THE PRIME MINISTER AND THREE MEMBERS OF HIS CABINET SERIOUS RESERVES REGARDING ANDREOTTI'S DECISION NOT TO ATTEMPT TO MODIFY THE WAGE INDEXATION SCALE (SCALA MOBILE) BEYOND THE LIMITS AGREED TO BY LABOR AND MANAGEMENT (SEE ROME 1391). THE DC LEADERS EXPRESSED THEIR CONVICTION THAT THE MEASURES AGREED UPON BY THE LABOR CONFEDERATIONS AND MANAGEMENT WOULD FAIL TO SLOW THE INCREASE IN LABOR COSTS DURING 1977 SUFFICIENTLY

AND WOULD NOT PERMIT ACHIEVEMENT OF THE DC GOAL OF LIMITING LABOR COST INCREASES 16 PERCENT DURING 1977.

3. PARLIAMENTARY GROUP LEADERS BARTOLOMEI AND PICCOLI POSTPONED THE SCHEDULED ECONOMIC CONSULTATIONS BETWEEN THE PARLIAMENTARY GROUP LEADERS OF THE VARIOUS PARTIES. IN EXPLAINING HIS POSITION TO A RADIO NEWS INTERVIEWER, PICCOLI AVOIDED DIRECT CRITICISM OF THE GOVERNMENT, BUT EMPHASIZED THAT EVERYONE INVOLVED IN THE POLITICAL PROCESS MUST "REFLECT" ON THE SITUATION IN ORDER TO HELP THE LIMITED OFFICIAL USE

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GOVERNMENT ARRIVE AT "ORGANIC CHOICES." IN SUBSTANCE, THE DC DISSENTERS ARE CALLING PM ANDREOTTI BACK TO HIS INITIAL PROMISE TO ACT IF THE LABOR-MANAGEMENT NEGOTIATIONS FAIL TO PLACE SUFFICIENTLY RESTRICTIVE LIMITS ON THE GROWTH OF THE COST OF LABOR.

4. THE POSITION ASSUMED BY THE DC LEADERS IS BASICALLY IDENTICAL TO THE ONE TAKEN THE DAY BEFORE BY PRI PRESIDENT UGO LA MALFA, WHO WAS THE FIRST TO JUDGE THE LABOR-MANAGEMENT ACCORD AS INSUFFICIENT. LA MALFA HAD CALLED FOR A MEETING OF THE REPUBLICAN DIRECTORATE, AND WAS INTERPRETED IN THE NEWS MEDIA AS THREATENING TO TAKE THE PRI INTO THE OPPOSITION. THE APPARENT ADHESION OF CERTAIN DC LEADERS TO THE RPI POSITION CAUSED LA MALFA TO CANCEL THE DIRECTORATE MEETING, PROMISING TO OBSERVE THE GOVERNMENT'S ACTIONS ATTENTIVELY.

5. PM ANDREOTTI'S INITIAL REACTION TO THE NEW SITUATION

WAS TO CANCEL IN TURN THE CABINET MEETING
SCHEDULED FOR TODAY, JANUARY 28 (RESCHEDULED FOR
JANUARY 31). HE HAS BEGUN INTENSIVE CONSULTATIONS WITH
POLITICAL LEADERS AND ECONOMIC EXPERTS INSIDE AND OUT-
SIDE THE GOVERNMENT. HE FACES A DEADLINE OF FEBRUARY 1,
WHEN THE WAGE INDEXATION SCALE WILL OPERATE TO CAUSE
A COST-OF-LIVING WAGE INCREASE. (SOME RETRO-
ACTIVE CHANGE MIGHT STILL BE POSSIBLE.)

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6. WHETHER OR NOT ANDREOTTI FINDS THE POLITICAL FORCES
DISPOSED TO MODIFY FURTHER THE WAGE INDEXATION SCALE,
HIS COURSE OF ACTION WILL BE AFFECTED BY THE CURRENT
TENSION WITHIN THE PSI. THE DE MARTINO-MANCINI CHALLENGE
TO CRAXI (SEE ROME 1149) CONTINUES TO PREOCCUPY THE
SOCIALISTS. THE MEETING OF ANTI-CRAXI PARLIAMENTARIANS
CALLED BY ZUCCALA FAILED TO ATTRACT THE DEGREE OF SUPPORT
EXPECTED BY CRAXI'S ENEMIES, BUT MANY INFLUENTIAL
SOCIALISTS ARE STILL SITTING ON THE FENCE. A
SOURCE CLOSE TO CRAXI TOLD AN EMBOFF THAT CRAXI INTENDS
TO FORCE THE ISSUE AT TODAY'S MEETING OF THE PSI
DIRECTORATE BY MOVING TO UNSEAT MANCINI'S ALLY

LANDOLFI FROM THE PSI SECRETARIAT.

7. IF CRAXI SUCCEEDS, HE WILL HAVE REMOVED THE IMMEDIATE CHALLENGE TO HIS AUTHORITY, AND WILL PROBABLY HOLD TO HIS JANUARY 27 STATEMENT THAT THE LIMITED OFFICIAL USE

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PRESENT IS NOT THE TIME FOR A CRISIS OF GOVERNMENT. IF, HOWEVER, CRAXI LOSES OR IS FORCED TO COMPROMISE, THE PSI MIGHT CONCEIVABLY PRESENT ITSELF AS A POSSIBLE COALITION PARTNER OF THE DC. THIS WOULD REMOVE THE LACK OF AN ALTERNATIVE WHICH UP TO NOW HAS BEEN SUCH A SOURCE OF STRENGTH FOR ANDREOTTI. IT WOULD ALSO MEAN AN END TO HOPES FOR REORGANIZATION AND REJUVENATION OF THE PSI OUTSIDE OF THE GOVERNMENT. PSI ENTRANCE INTO THE GOVERNMENT AT THIS TIME WOULD WORK AGAINST THE CAUSE OF REDUCING THE COST OF LABOR (THE PSI HAS BEEN INTRANSIGENTLY OPPOSED TO TOUCHING THE WAGE INDEXATION SCALE) AND PRODUCE A GOVERNMENT LESS ABLE THAN THE PRESENT ONE TO COPE WITH ITALY'S ECONOMIC AND SOCIAL PROBLEMS.

8. ON JANUARY 27, A SENIOR PCI OFFICIAL EXPRESSED TO AN EMBOFF DEEP CONCERN OVER THE SUDDEN WORSENING OF THE POLITICAL SITUATION. HE ATTRIBUTED THE NEW DEVELOPMENTS TO MANAGEMENT AND BANKING COMMUNITY DISCONTENT WITH THE EXTENT OF THE COMPROMISE CONFINDUSTRIA PRESIDENT CARLI MADE WITH THE LABOR CONFEDERATIONS. ADDITIONALLY, THE PCI OFFICIAL SAID THAT PM ANDREOTTI HAD ACTED ON THE ACCORD WITHOUT CONSULTING THE DC PARTY LEADERSHIP AND ECONOMIC EXPERTS. ALTHOUGH THIS WAS A SERIOUS ERROR ON ANDREOTTI'S PART, OUR SOURCE FELT THAT A GOVERNMENT CRISIS COULD EVENTUALLY BE AVOIDED.

9. COMMENT: THE NET EFFECT OF THE LAST TWO DAYS HAS BEEN TO PLACE PM ANDREOTTI'S FEET TO THE FIRE. IT SEEMS CLEAR THAT HE CANNOT IGNORE HIS OWN PARTY'S CONSENSUS IN FAVOR OF FURTHER ACTIONS ON LIMITING INCREASE IN THE COST OF LABOR. AT THE SAME TIME, HE IS HANDICAPPED BY HIS APPARENT PROMISE NOT TO TOUCH THE WAGE INDEXATION SCALE, AND BY LABOR'S ATTITUDE THAT IT IS TIME FOR OTHER SECTIONS OF SOCIETY TO MAKE SACRIFICES. LIMITED OFFICIAL USE

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ON OTHER HAD,

FISCALIZATION OF SOCIAL INSURANCE OR SCALA MOBILE MIGHT BE
COMPROMISE (SEPTTEL). FOR THE MOMENT, ANDREOTTI'S HIGHEST CARD
IS THE ABSENCE OF A VISIBLE ALTERNATIVE. IF THAT CHANGES,
THEN THE PRIME MINISTER MAY FACE SERIOUS TROUBLE.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: POLITICAL STABILITY, FORM OF GOVERNMENT
Control Number: n/a
Copy: SINGLE
Sent Date: 28-Jan-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977ROME01490
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770031-0960
Format: TEL
From: ROME
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t1977018/aaaaagov.tel
Line Count: 229
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: c0ef5cdd-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 08-Mar-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3661252
Secure: OPEN
Status: NATIVE
Subject: PM ANDREOTTI FACES DIFFICULTIES
TAGS: PINT, IT, (ANDREOTTI, GIULIO)
To: STATE TRSY
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/c0ef5cdd-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009